STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 98-601

January 31, 2000

PUBLIC UTILITIES COMMISSION
Investigation of Stranded Costs, Transmission And Distribution Utility Revenue Requirements And Rate Design of Town of Madison, Department of Electric Works

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

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## I. SUMMARY

By way of this order we approve transmission and distribution (T&D) utility rates for Town of Madison, Department of Electric Works (MDEW) effective March 1, 2000, the beginning of retail access to generation services in Maine. Under the rate schedules proposed by MDEW, it will recover $983,585 in annual revenue requirements. MDEW has filed tariffs that contain identical customer charge and per kWh delivery service rate components for each customer, differentiated only by the voltage level at which the customer takes service. The effective average T&D rate per kWh for all distribution level customers will be 3.288¢/kWh, with residential rates being 3.457¢/kWh and medium and large commercial rates being 3.059¢/kWh. The effective average T&D rate per kWh for all transmission level customers will be .077¢/kWh.

## II. PROCEDURAL BACKGROUND

The provisions of the Electric Restructuring Act require the Commission to conduct an adjudicatory proceeding to establish transmission and distribution utility revenue requirements, and to design stranded costs and rates for each consumer-owned electric utility (COU), prior to the start of retail access in March of 2000. 35-A M.R.S.A. §§ 3508(8), 3509(2).

On August 10, 1998, the Commission issued a Notice of Investigation which initiated a stranded costs, transmission and distribution utility revenue requirements and rate design proceeding for MDEW. That notice provided interested persons with an opportunity to intervene in this matter. The Office of Public Advocate (OPA) and Madison Paper filed petitions to intervene which were granted without objection.

On September 4, 1998, an initial case conference was held to determine the scope and processing of the case. At this conference, it was agreed that the parties would attempt to resolve the case through an informal process rather than through formal litigation. In making this determination, the parties recognized that MDEW, as a COU, operates under different legal and operational conditions than do the investor-owned utilities (IOUs). Its customers are its owners, which gives its customers more control over its decisions and actions than those of IOUs'. In addition, COUs, under 35-A M.R.S.A. § 3502, can change rates at their discretion with limited Commission oversight. Finally, instead of earning an overall rate of return on plant investment, the COUs maintain an operating margin. This margin is limited to a maximum of 25% of revenues by 35-A M.R.S.A. § 3503(C)(3) and is reflected when calculating revenue requirements. Therefore, when we reduce one component of revenue requirements, MDEW may offset the reduction by increasing its reserve requirements to meet a reasonable margin allowance.

MDEW's initial filing was made on November 10, 1998. During the past year, a series of technical conferences were held among the Advisory Staff and the parties to discuss the filings and further develop the case. A general consensus on principles, final rates and tariff language was reached and on October 12, 1999, MDEW submitted a Chapter 120 filing, revised December 15, 1999, reflecting these agreements.

## III. DISCUSSION

### A. Revenue Requirements

MDEW based its revenue requirements on actual 1997 operating information as reported in its annual report filed with the Commission. It did not initially make any adjustments to this data. The parties recommended limited changes to the revenue requirements to remove one-time costs and adjust revenues and expense that were unlikely to occur in future years. MDEW, in its final tariffs and supporting workpapers, reflected the changes agreed to by the parties.

We have reviewed MDEW's revised revenue requirement filing and are satisfied that this level of revenue is required for MDEW to perform its public utility service and to attract necessary capital on just and reasonable terms. We approve rates intended to collect revenue requirements of $983,585.

### B. Rate Design

In its filing, MDEW proposes rate design changes to both class allocations and rate structures to bring its T&D rates in line with its costs of service. It is worth noting that MDEW's last rate design and/or cost allocation filings were done prior to 1983. In this filing, MDEW's proposed cost-based T&D rates would increase the effective average total rate (including both T&D and power supply) for the residential class by 9.8% while decreasing the rate for the large power class by 4%. MDEW eliminates the demand charge for all customers, and proposes to charge identical rates to all customers, differentiated only by delivery voltage level. Customers taking service at or above 34.5 kV are considered "transmission level;" those taking service below 34.5 kV are considered "distribution level." [1]

[1] Area lights and street lights are not included in this proposal.

In *Maine Public Utilities Commission, Investigation of Central Maine Power Company's Stranded Costs, Transmission and Distribution Utility Revenue Requirements and Rate Design*, Docket No. 97-580, Order at 116 (March 19, 1999), the Commission concluded that a smooth and successful transition to retail access is more likely to occur if T&D rate design undergoes only minimal changes and causes no customers to experience bill increases as a result (the "no losers" principle). MDEW's proposed revisions to class allocations and to rate structures will necessarily result in both decreases and increases to the bills of individual customers, thereby violating the "no-losers" principle. To mitigate bill impacts, two steps were undertaken. First, MDEW placed a cap of 5% on the increase to each rate group's average total rate increase (including both T&D and power supply). Because some average rate increases exceeded 5%, MDEW proposes to phase-in the rate design changes over a 2-year period. While MDEW will phase-in its revisions to rate design, the full change to Company revenue requirements will be carried out on March 1, 2000.

Second, MDEW calculated the bill impacts of its phased-in rates on customers of varying sizes in each rate class. In some instances, a small number of customers continue to have significant increases.[2]

As discussed above, we desire that customers experience a smooth transition to retail access. However, we recognize COUs' unique legal and operational conditions, and we accept MDEW's assertion that the advantages of bringing rates into balance with costs will offset negative impacts caused by bill increases. Therefore, we will deviate from our stated "no-losers" principle and allow MDEW to carry out its proposed rate re-design when developing its T&D rates.

C. Generation Facilities

COUs were not required by electric restructuring legislation to divest their generation facilities. MDEW's generation facilities consist of hydroelectric and internal combustion generation. MDEW owns 547 KVA of hydroelectric and 1,000 KVA of internal combustion generation. MDEW proposed that it be allowed to retain the facilities, arguing that they essentially served the function of voltage support and divestiture of the assets would not provide sufficient benefits to offset the costs of divestiture.

In its filing, MDEW included the operating costs related to the facilities in its revenue requirement. The value of the power generated would be retained by ratepayers. To accomplish this, the generation portion of a customer's bill would contain a charge for only the portion of the kWhs that are produced by a competitive electricity provider; the portion of kWhs produced by internal generation would receive no charge for generation.

[2] For example, certain street light bills would increase by 20% or more.

MDEW's generation facilities comprise only a small portion of its total generating needs. MDEW has adequately reflected the costs and benefits to its ratepayers of these facilities. Therefore, we accept MDEW's proposed method for treating its generating facilities.

D. Transmission/Generation Clauses

MDEW has included in its rate schedules an automatic adjustment clause to reflect changes in the cost of transmission. This clause is necessary because generation providers wheel power to MDEW's territory through IOUs contiguous to MDEW. MDEW has agreed to assume the IOU's wheeling charge so that the provider need not charge its customers a premium to cover this additional transportation cost. The charge under this tariff will change on a monthly basis to reflect actual costs charged to MDEW in the previous month.

MDEW currently adjusts its rates monthly to reflect fluctuating costs of purchased power. Therefore, a transmission charge that changes monthly will not be a new pricing feature to MDEW's customers.

We recognize that this transmission wheeling charge is an exogenous cost to MDEW. We accept MDEW's representation that its customers are accustomed to monthly rate fluctuations, and we accept MDEW's treatment of this charge.

## IV. CONCLUSIONS

We have reviewed MDEW's proposed rate schedules filed on December 15, 1999, and conclude the rates contained therein are just and reasonable and will provide a level of revenue necessary for MDEW to perform its public utility service and to attract necessary capital on just and reasonable terms.

Accordingly, we O R D E R

That MDEW's Rate Schedule R, 5th Revised Sheet; Rate Schedule GC, 5th Revised Sheet 1 and 6th Revised Sheet 2; Rate Schedule LP, 5th Revised Sheet 1 and 2; Rate Schedule SL, 4th Revised Sheet 1 and 2; Rate Schedule OL, 4th Revised Sheet 1 and 2; Rate Schedule MP, 1st Revised Sheet 1 and 2; Rate Schedule DC, Original, Sheet 1; Rate Schedule TA, Original Sheet 1, filed on October 12, 1999 and December 15, 1999, effective March 1, 2000, copies of which are attached hereto, are hereby approved to take effect for service provided on or after March 1, 2000.

Dated at Augusta, Maine, this 31st day of January, 2000.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Diamond